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SUBJECT: The Japan Economic Scope--December 13, 2007

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13. (SBU) Japan Post Insurance Submits New Product Applications

In its first application for new or altered products since postal privatization began October 1, Japan Post Insurance (Kampo) submitted plans for two products to the Financial Services Agency (FSA) Commissioner and the Minister of Internal Affairs and Communications. The plans, which will also have to be reviewed by the Postal Services Privatization Committee, were submitted November 26.

According to government and industry officials, Kampo's new plans are (1) to distribute insurance products, starting in June 2008, targeting the business succession plans small and medium size companies' executives, and (2) to expand hospitalization coverage under certain medical riders attached to existing Kampo products.

Despite the insurance industry's long-held fears about Kampo's move into new or altered products, U.S. industry officials have not criticized the action, noting that in the corporate market, Kampo has chosen to offer the products of eight private sector companies' (including, we hear, those of an AIG affiliate).

Regarding the expansion of medical riders, one U.S. company executive described the scope of Kampo's plans as "relatively modest."

While assuring us they will continue to press for transparency and a level playing field, American Chamber of Commerce of Japan (ACCJ) officials have told us they are unlikely to submit

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a public comment on this round of product applications, given Kampo's decision to open its network to private sector companies. (ECON: Marc Dillard)

14. (SBU) Bill to "Review" Postal Privatization Passes Upper House

On December 12, the Diet's Upper House passed a bill to "review" postal privatization. The bill is now in the Lower House, where media and government contacts believe it will either remain unaddressed (and thus fail at the end of the current session) or be voted down by the ruling Liberal Democratic Party (LDP).

The bill, which proposes that postal privatization be halted while it is under review, is sponsored jointly by the Democratic Party of Japan (DPJ), the Social Democratic Party (SDP), and the People's New Party (PNP). (ECON: Marc Dillard)

15. (SBU) Japan Post Insurance Contract Sales Down 74%

Japan Post Insurance's (Kampo) October contract sales were down 74 percent relative to its sales in October 2006, according to media reports. October's sales were the company's first since postal privatization commenced.

Some newspaper reporting attributed the decline to Kampo's no longer being able to offer a government guarantee on its products--one of the key conditions of privatization.

Industry officials, however, have stressed to us that solicitation requirements not previously required of Kampo's sales agents (as the requirements came into effect October 1 when the Financial Services Agency became Kampo's regulator) were likely responsible for the unusually large drop in sales.

Sales figures over the next several months will shed more light on the cause(s) of the decline. (ECON: Marc Dillard)

16. (SBU) U.S. Beef: GOJ on Train That Says 30 months?

Under Secretary of Agriculture Keenum told a press conference in Tokyo December 7 that the United States disagreed with Japan's desire to ease restrictions on U.S. beef to allow beef from cattle up to 30 months old -- a policy at variance with the preferred U.S. approach, which would be for Japan to adopt OIE guidelines and allow U.S. beef imports without age restrictions.

In part in reaction to the Keenum comments, Japanese authorities, including Chief Cabinet Secretary Machimura, have done more to explain the Japanese position, which has appeared in the press in recent weeks but in vague terms by officials speaking off the record. Machimura told reporters after Keenum's comments that authorities are considering the "possibility" of recommending that age restriction on U.S. beef be raised from 20 to 30 months. (See attachment for Machimura's complete comments.)

Japan's largest circulation daily, Yomiuri, had an editorial December 11 suggesting that moving to a 30-month age restriction on U.S. beef was appropriate. The editorial added, however, that it was too early to eliminate age restrictions in accordance with OIE standards. Yomiuri generally represents a fairly mainstream view of Japanese public opinion, and in the past has taken an even more anti-U.S. position over the beef issue. (ECON: Nicholas Hill)

17. (SBU) Where are the U.S. Apples?

Two years ago the United States won a WTO ruling against Japan over U.S. apples, essentially opening the way for their import into the Japanese market. Despite the ruling, in 2006 Japan did not import a single apple.

According to a December 10 USDA GAIN Report, Japanese apple growers face no competition due to phytosanitary restrictions and high tariffs. Meanwhile, exports -- mostly to Taiwan --

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have expanded by 10 percent, to 18,800 metric tons. For more please see attached report. (ECON: Nicholas Hill)

18. (U) Daily Yomiuri Puts Spotlight on Japan's Declining Agriculture Sector

Japan continues to struggle with a declining farm sector. Despite steep barriers to imports and generous support programs for farmers, agricultural production continues on a downward trajectory.

Hiroyuki Ueba describes the decline in a page one feature article in the December 8 English language Daily Yomiuri. Between 1990 and 2005, agricultural output plunged from 7.84 to 4.81 trillion yen. Japan's self-sufficiency rate declined from 78 percent in 1961 to 39 percent in 2006.

The government's handling of the farm sector has been mixed, with an assortment of political barriers to introducing necessary reforms. Some blame attempts to consolidate farms and boost efficiency as one reason the Abe government suffered heavy losses in last summer's Upper House parliamentary elections.

Ueba's Daily Yomiuri article is a serious attempt to look at

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Japan's overall farm sector difficulties. What is interesting, an agriculture economist who was quoted extensively by Ueba told us later, is that the article never appeared in the Japanese language press.

The Daily Yomiuri's circulation is about 40,000 readers,

compared to the Yomiuri's 10 million, the largest daily in the world. (ECON: Nicholas Hill)

CHINA RELATIONS

¶9. (U) Missing Text Sours Japan-China Econ Dialogue Outcomes

Japanese media revealed December 7 the Chinese version of the press communique from the December 1-2 Japan-China High-level Economic Dialogue (HED) was missing language regarding the Japanese side's call for faster appreciation of the Chinese currency.

A portion referring to Japan's desire for China to participate in the Energy Charter Treaty was also dropped in the Chinese text. Chief Cabinet Secretary Machimura called the omissions in the Chinese text of the communique "unthinkable from the viewpoint of international practices."

Nevertheless, Machimura indicated the dispute over the missing text would not affect plans for PM Fukuda to visit China. The Chinese government's explanation was that the document was not a formal "joint communique"--therefore, differences in the texts were to be expected.

Tokyo 5532 provides more GOJ commentary and analysis on this incident. (ECON: Chris Wurzel)

TRADE POLICY

¶10. (SBU) Japan's EPA Agenda

Japan's has a mixed record in ongoing EPA negotiations with an assortment of partners. That was what recently published minutes of the Economic Partnership Agreement (EPA) Agriculture Sub Committee of the Council for Economic and Fiscal Policy (CEFP) reflected.

A senior official familiar with the work of the Sub Committee told us that the Fukuda government remained committed to a reform agenda, including on EPAs, but there was a greater element of "realism" than under the previous Prime Minister. The official noted in particular that there was more conflict in the Diet over agriculture reform, which is critical to stimulating progress on EPA negotiations. (ECON: Nicholas Hill/Ryoko Nakano)

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¶11. (U) Brief Summary of the EPA Sub Committee Conclusions

A brief summary of the sub committee conclusions as they appear on the CEFP website follows:

Australia EPA - Negotiations are proving difficult, although there is some progress to show concerning energy and natural resources. On Agriculture, the two countries have focused on exchanging information on sensitive items. To ensure stable natural resource supplies, Japan is asking Australia to prohibit export duties and guarantee that exports will not be banned. Australia's response to this latter point is affirmative but cautious.

Philippines EPA - the deal was signed last year and ratified in Japan and pending ratification in the Philippines. As of November (when the CEFP minutes were first published), an Upper House Committee did not have the required two-thirds to pass the agreement.

Vietnam EPA - Talks are ongoing. The two sides have met five times since their launch in January 2007. Being one of the least developed countries in Asia, Vietnam is highly

protectionist. This raises concern on how much Vietnam is willing to liberalize its market.

GCC EPA - The sides have not been able to hold talks since January. The meetings set for April and July were also cancelled.

India EPA - Negotiators have held four meetings since January. India is resisting tariff reductions.

Switzerland EPA - It is the first EPA negotiation to be carried out with a developed country in Europe and progress is being made.

EPA with U.S. and EU - MOFA is currently asking interested parties and related ministries on their views toward such an EPA and hope to make it a future issue. (ECON: Ryoko Nakano)

BUSINESS, FOREIGN INVESTMENT

12. (U) Wal-Mart's Stake in Seiyu Over 95 Percent After Its Tender Offer

Wal-Mart Stores Inc. has raised its stake in Seiyu, the fifth-biggest retailer in Japan, from 50.9 to 95.1 percent after submitting its tender offer on December 4.

Although money-losing Seiyu had been performing better since Wal-Mart entered the market in 2002, there were rumors that Wal-Mart would exit the Japanese market after it sold its operations in Germany and South Korea.

Wal-Mart Senior Director of International Corporate Affairs, Beth Keck, visited EMIN in late October to dispel these rumors. Wal-Mart has made the commitment to stay in Japan and wished to show its intention by expanding its ownership of Seiyu.

Wal-Mart will now proceed with additional steps to acquire all of the remaining shares, which will result in the delisting of Seiyu shares from the Tokyo Stock Exchange.

Seiyu's Executive Director and Senior Vice President of Corporate Communications, Ryo Kanayama, confirmed to us that Wal-Mart's tender offer was intended to give general confidence to its business partners about Wal-Mart's commitment. (ECON: Junko Nagahama)

13. (SBU) JFTC Whacks International Hose Cartel

Japanese media December 8 reported the Japan Fair Trade Commission (JFTC) will punish Bridgestone Corp., Yokohama Rubber, and four European firms over an international price cartel in the sale of marine hoses used for transferring oil, according to sources.

A JFTC official confirmed the punishment will be the first the JFTC has imposed on foreign companies and is likely to include imposition of punitive surcharges on the non-Japanese participants in the cartel.

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The four foreign firms are Britain's Dunlop Oil & Marine Ltd., France's Trelleborg Industrial AVS, and Italy's Parker ITR S.R.L. SpA, and Manuli Rubber Industries SpA.

The six companies account for about 90 percent of the market and, according to the press, have been under investigation by authorities in Japan, Europe and the United States since May.

The U.S. Justice Department has arrested eight executives, including the then chief of Bridgestone's overseas division for chemical products. Most of them--but not the Bridgestone executive--have been indicted. Two executives of the French manufacturer have admitted to the charges. (ECON: Chris Wurzel)

¶14. (U) Government Seeks to Extend Capital Gains Tax

As one element of the expected tax reform package, the LDP and New Komeito coalition will attempt to grant a two-year extension of the tax break on capital gains beyond the current 2008 deadline.

At present, the tax cut reduces the 20 percent capital gains rate by half. Going forward, the ruling coalition's proposal would apply the lower rate to annual gains of up to JPY 5 million, while the original 20 percent rate would apply for gains above that amount.

We will have further reporting on the entire tax reform package --including proposals to share local enterprise tax revenues to distressed regions--after its official release. (FINATT: Mateo Ayala)

AVIATION

¶15. (U) International Airfare Liberalization in Japan?

On December 5, Japan's FTC formally requested the transportation ministry, MLIT, to review current Aviation Law, which allows price cartels by the International Air Transport Association (IATA) to be exempted from antitrust law. The FTC issued the same request in 1999, but MLIT rejected the request because other countries are in line with Japan's practice for IATA pricing to be exempted from respective country's competition laws.

However, the FTC this time says there is no rationale for the practice to continue with active movements that are taking place toward abandoning IATA cartel in the United States, European Union, and Australia.

According to the Sankei Shimbun, IATA fares are applied to all first-class tickets and 90 percent of business-class tickets for flights in and out of Japan. The article suspects that, if MLIT abolishes the system, discount tickets for first-class seats or reduced fares for business-class and economy-class seats will likely appear on the market.

MLIT's Vice Minister Minehisa said the ministry will not rush into a conclusion. However, there have been comments from MLIT officials that the current system is working fine and Japan's decision to abolish the current system might invite confusion in Asia's aviation market, showing reluctance to change. (ECON: Junko Nagahama)

¶16. (U) Itami Airport--MLIT Considers More Financial Responsibility by Local Government

According to the Asahi Shimbun Osaka Edition this week, MLIT plans to set the financial responsibility to local governments for Itami Airport, which is fully managed and funded by the national government, at 400--500 million yen (\$3.6--4.5 million) per year for the next five years.

The national government has been spending three billion yen (\$27.2 million) per year for Itami Airport, with the local government footing one third of the cost. Local authorities and businesses have resisted changes to this funding scheme in the past.

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A manager of the Osaka Prefectural Government Airport Promotion Section told ConGen that the current airport management legislation is out of line with actual MLIT practices. Osaka wants Itami to continue to provide international air service and has expressed dissatisfaction with MLIT's current policy. One issue is the current structuring of airports into several

categories based on the kind of organization operating the airport, with varying levels of funding and international service. Responding to this criticism, MLIT will submit a revised bill to the Diet session of January. (Osaka-Kobe: Phil Cummings/Naomi Shibui)

THE ENVIRONMENT

¶17. (U) IWC Chairman Vists Tokyo (U)
William Hogarth, current Chairman of the International Whaling Commission (IWC) and U.S. Commissioner to the IWC, was in Tokyo for meetings with Japanese officials on December 11. For a readout of those meetings, please see Tokyo 5536. (ECON: Bart Cobbs)

THE REGIONS

¶18. (U) FDI: Costco Sapporo on Schedule for January 2008 Opening

During a December visit to ConGen Sapporo, Costco Japan's assistant director of marketing confirmed that the company is on track to open its sixth Japan store here on January 25, 2008.

Costco CEO James Sinegal, who attends all Costco openings worldwide, will travel to Sapporo for the festivities. Costco Japan is pleased with the location it selected in Sapporo, which allowed it to build a large facility to almost 100 percent American specifications, including a 700-car parking garage with excellent access to the adjoining highway.

The company is also happy with local excitement about the store coming to Hokkaido. A pre-opening Costco membership drive in Sapporo has already set new records for first-time signups in Japan.

In addition, the pool of qualified applicants for new jobs is strong. Costco Sapporo has already hired nearly 200 workers, and the company has plans to hire an additional 100. (Sapporo: Ian Hillman/Yumi Baba)

¶19. (SBU) Largely Dropped Public Works in Osaka

A recent study by Asahi Shimbun showed that cases of "bid failure" for public works projects in major cities are on the increase. There were 80 such cases in Osaka City last year, 7.3 times the rate in 2005.

Bid failures quadrupled in Tokyo and Nagoya. Contractors said that recent projects put forward by municipalities were unfeasible at initial bid levels.

A manager of MLIT Kinki Regional Development Bureau said that recent large scale bid-rigging scandals in Osaka, which have led to heightened scrutiny by the Osaka District Public Prosecutors Office, is one factor behind the declining contract bid prices. The trend is especially pronounced in Osaka.

On the other hand, several prefectures in rural areas still depend on public works as an employment tool. Tokushima Prefecture has not seen any cases of bid failure in its public works (possibly a sign of bid-rigging).

Construction companies in Tokushima claim there are few private sector alternatives to local government projects to keep themselves employed (Osaka-Kobe: Phil Cummings/Naomi Shibui)

¶20. (SBU) "Kansai Science City" Third Sector Project of Kyoto Prefecture Bankrupted

Keihanna Interaction Plaza Inc, the core company managing

Kansai Science City, which is a public/private partnership by the three prefectures of Kyoto, Osaka, and Nara, filed for bankruptcy on November 30.

Its debt totaled 10.9 billion yen (\$99 million). Kyoto was the most heavily invested in the project. This is the first bankruptcy of a so-called "third sector" project for Kyoto Prefecture. The largest stockholder of Keihanna Interaction Plaza is the Development Bank of Japan (DBJ).

DBJ is working on a revitalization plan, and has asked for financial support by local businesses.

Kansai Economic Federation Chairman Hiroshi Shimosuma, who is the Chair of Keihanna, said that he would support the revitalization of Keihanna and would ask the Kansai business community for restructuring assistance.

Keihanna President Yoshio Tateishi, who is the head of both Omron and the Kyoto Chamber of Commerce, apologized. Kansai Science City was established in 1989 amid the bubble economy. Observers likened the firm's collapse to a decade-long sinking of the Titanic, one of perhaps many to face the Kansai in the near future. (Osaka-Kobe: Phil Cummings/Naomi Shibui)

¶21. (U) The Year in Kanji: "Itsuwari" Deception/Lies/Deceit

Food for thought: The head priest of Kiyomizudera temple in Kyoto announced that the Chinese character best summing up the current year was "itsuwari," literally "deception, lies, deceit, etc."

The annual selection, culled from surveys of the Japanese public, surprised few here. A spate of food-business scandals involving falsified "best by" dates and ingredient labels, and recycled food products being sold as new, has damaged consumer trust of the food industry.

Newspaper editorials also claimed the selection of this character was a reflection of voters' distrust of politicians over the pension scandal at the Social Insurance Agency that emerged over the summer.

Officials at the Kanji Testing Association in Kyoto said that the public clearly expressed its choice of characters this year (18 percent), in contrast to previous years. (Osaka-Kobe: Phil Cummings)

SPORTS

¶22. (U) Cubs Swallow Dragon

The Chicago Cubs made a big splash in the sweepstakes for Japanese players this week. They reportedly signed former Chunichi Dragons outfielder Kosuke Fukudome to a four-year contract worth \$48 million.

Fukudome has a career .305 batting average over nine seasons with the Chunichi Dragons. His production was down in 2007 due to bone chips in his right elbow. His contract with the Cubs is conditional on passing a physical next week when he visits Chicago.

According to ESPN, Cubs manager Lou Pinella told reporters that Fukudome is a cross between Hideki Matsui and Ichiro Suzuki. Fukudome reportedly spurned an offer with the San Diego Padres to go to the Cubs. The Padres offered Fukudome a three year deal in excess of \$10 million per season. (ECON: Nicholas Hill)

¶23. (U) Ambassador of Beef to Padres

On the rebound after Kosuke Fukudome signed with the Cubs, the San Diego Padres signed Tadahito Iguchi to a one-year contract to play second base.

Iguchi, who played for the Chicago White Sox and Philadelphia Phillies in 2007, is a big fan of U.S. beef and made no bones about eating the stuff with the Japanese public -- becoming something of an Ambassador of Beef for the Tokyo media last

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year. (ECON: Nicholas Hill)

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5512 Former SDF Col Sato Discusses Anti-Terrorism Law, Diet Extension

5511 Paris Donors Conference

5503 Diet Extension, OEF Bill

5491 Rood's Nonproliferation Meetings

125. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlotte Crouch (CrouchCA@state.gov) and Joy Progar (ProgarJ@state.gov). Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different agency and are interested in a back issue.
SCHIEFFER